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NOTES.

TRUSTS IN EUROPE.

WE are indebted to the efficiency of our consular service for very valuable information regarding the recent development of trusts in Europe. The Bureau of Foreign Commerce has made a collection in a small volume of *Special Consular Reports*, Vol. XXI, Part III, with the title: "Trusts and Trade Combinations in Europe." Amidst the current discussions about the causes of trusts in America it will be of value to know that trusts may develop without the favoring conditions of a high protective tariff or discriminating transportation rates. England has no protective tariff; Germany and Austria only a slight one. In neither of these countries have complaints of railway discrimination been heard, because of the strict government control of railways. In spite of these differences in the general industrial structure between the United States and Europe the apparent tendency in either place is the growing concentration of capital into trusts. As will be seen later, the trusts of Europe generally take a different legal form from those of the United States, and may not technically be called "trusts;" but in their economic efficiency of controlling production and influencing prices they resemble the American trust.

The rapid development of industries in Germany presents many similarities to our own business life. Time-honored institutions are fast disappearing, and the German business man is seeking new methods by which he may be enabled to enter the world market. In the resulting reorganization of business methods concentration of capital into trusts or "Kartelle" seems to be inevitable.

Among trusts resting upon natural or legal restrictions may be mentioned the dynamite trust and the coal trust, the former because of its patent rights and government control. The dynamite trust includes in its territory Germany, Switzerland, France, Belgium, and Great Britain, and has driven many a hard bargain with several of the European governments. The great Rhenish-Westphalian coal combination consolidated in 1892 several smaller syndicates, and through its control of the output dictates prices both to the Prussian government and to individual consumers who do not possess their own mines.

Of the industrial trusts the iron trade combinations are of peculiar interest :

Their purpose is the usual one, to prevent unhealthy competition by concentrating the sale of the combined output in the hands of a managing committee, which apportions and distributes orders among the members, fixes selling prices of products, and, as nearly as possible, regulates production to meet but not exceed the demand.¹

The construction and method of operation of this combination differs from the American steel trust. The combination is only a "selling-pool" and does not own the individual firms of which it is composed.

Having come to a general agreement and signed a contract binding all members to sell their entire product to the central committee, an expert commission was sent to visit all the works, note carefully their capacity, quality of principal product, and location with respect to transportation, local market, and facilities for export. All orders are received by the general manager of the syndicate and apportioned among the members according to the capacity of their works and the special requirements of each case. Orders for export are naturally given to works nearest the frontier, and when for such or other reasons one of the associated plants receives more than its due quota, the excess is deducted in the apportionment for the next quarter. At the close of the year all accounts are balanced, a general compensation of the excesses and deficits of production arrived at, in which each plant is credited with the quota assigned to it in the scheme of allotment.

The organization is an ironclad compact in which each contracting party agrees to submit without conditions to all rules and measures adopted by the syndicate, or, in default, to be fined for disobedience. For this purpose blank acceptances are signed by each member and put in the hand of the syndicate treasurer. Should a member be fined the treasurer fills in the amount of such penalty on the signed check and puts it into circulation. Such a syndicate has naturally great power and efficiency in promoting export trade. In the allotment of orders the plants nearest the frontier or tide water are favored because they can most easily export their surplus, which if allowed to accumulate might depress the market at home. If, as sometimes happens, this excess has to be exported at a loss the resulting deficit is made up to the losing member from the funds of the syndicate, which collects the money for such export bounties and for its own working expenses by a levy or tax, assessed by the general meeting, in the form of a percentage on the aggregate sales.²

¹ *Consular Reports*, p. 463.

² *Ibid.*, pp. 464, 555. See also *Schriften des Vereins für Socialpolitik*, vol. lxi, p. 15 f., where substantially the same methods are outlined in regard to the alkali trade.

The effect of this sort of protected foreign export is shown in an item quoted by *Bradstreet*, March 3, 1901, from the London *Financier*. The German Wire Rod Syndicate issued a report of its operations in the six months ending December 31, 1900, from which it appears

that the syndicate, which comprises no less than eighty-two works, sold 41,831 tons of wire rods. Of this quantity 22,307 tons were disposed of in Germany, while the remaining 19,524 tons were sold abroad. The profits realized from the inland sale amounted to £58,856, whereas in the case of the exports, which were only 2783 tons less than the quantity consumed in Germany, there was a loss of £42,972. The explanation of the difference is afforded by the fact that the German consumers are compelled to pay for the privilege of enabling the syndicate to conduct an export trade, they being charged £12 10s. a ton, as against £7 per ton for the export goods.

Another combination, that resembles more closely the American type, in that it has absorbed and taken up the shares of the original corporations, issued new stock, and consolidated the whole management under the absolute control of a central authority, is the steel works of Friedrich Krupp, at Essen, which also controls the Germania shipyard at Kiel, a machine shop in Berlin, as well as several coal mines and blast furnaces.

The most important combinations in Austria are found in the iron, the petroleum, and the sugar industries, but combination is rapidly spreading to other branches of industry. The entire number of iron works in Austria belong to the iron combination. The petroleum trust was formed in 1899. It comprises seventy-two factories with a total production of 195,503 tons. Outside of the combination are six factories, with a production of 18,000 tons. There is an agreement between the crude oil manufacturers and the petroleum refineries as to the price for crude oil. The sugar trust embraces all sugar factories and refineries. The raw sugar factories have given up the production of sugar for home consumption, in return for which the combined sugar refineries guaranteed a minimum price of \$42.63 per 220 pounds for raw sugar sold in the market.¹

The usual form the Austrian trusts take is a selling-pool, resembling that already described in Germany.

English conservatism has not been able to resist the trust movement. Especially in the textile and kindred trades do we find a rapid

¹ See *Consular Reports*, pp. 420, 421.

concentration. The Bradford Dyers' Association, formed in 1898, includes twenty-eight firms with a capitalization of nearly 22 million dollars. In July 1899 the Yorkshire Indigo, Scarlet, and Color Dyers' Association absorbed eleven businesses. In October 1899 the Yorkshire Woolcombers' Association was formed, absorbing thirty-eight individual firms, and with a capitalization of 12 million dollars. A still more recent combination is the British Cotton and Wool Dyers' Association with a capitalization of 13 million dollars and absorbing forty-six firms. In all of these the reasons for combination were given as the saving through centralized control, technique of production, and elimination of undue competition. It is only a matter of time when some formal understanding will take place between these combinations, forming a central authority that governs the whole.¹ Other combinations of importance, mentioned in the *Consular Reports*, are the United Alkali Company, formed in 1891 with a capitalization of \$41,310,000, with shares increasing in value; and the Salt Union, organized in 1888 with an authorized capitalization of \$20,412,000. If we may believe a statement in *Bradstreet*, June 29, 1901, the National Salt Company of the United States, the Salt Union of Britain, and the organization which controls the principal brine-salt product of the Dominion of Canada intend to form a combine. . . . The Salt Union of Great Britain is substantially a trust, as it regulates both price and production.

The *Financial Times*, quoted by the *Consular Reports*, page 521, gives a list of trusts formed from November 25, 1897, to April 28, 1900, numbering thirteen, with a total capitalization of \$182,104,430, and absorbing 296 individual businesses.

The cotton-thread industry presents an interesting study in combination. The English Sewing Cotton Company was formed in Manchester, 1897, amalgamating fifteen firms, and with a total capitalization of ten million dollars common and preferred stock and five million dollars of bonds. In 1896 Messrs. J. & P. Coats, of Paisley, Scotland, absorbed in their already large business several others, and increased their capital \$26,765,750. Later a huge combination of American sewing-thread manufacturers was formed, with a capital of over 18 million dollars, and agreements have been entered into with Messrs. Coats and the English Sewing Cotton Company to avoid undue competition in output and prices, the former company taking up \$515,000

¹ *Consular Reports*, pp. 513 ff.

in shares and the latter \$3,720,000. It will probably be only a short time before the remaining independent thread manufacturers will be brought into one or the other of the great combinations.¹

An interesting feature of the English trust movement is the apparent indifference that the public press displays toward the movement. The London *Daily Mail* in its issue of February 1, 1900, announces the proposed formation of a worsted spinners' trust with a capitalization of \$87,597,000 in which 106 firms were concerned in an item in its news column with a two-line head and twenty-eight lines of small type set solid. The same paper devotes to the prospectus of the wall-paper trust, with a capitalization of \$29,190,000, an item with a two-line head and twenty-one lines of type, ending with this comment, since the details of capitalization and place of business have been given: "Many important consolidations, adjustments, and economies have already been effected since the formation of the federation."

In order to understand the forms that combinations take in Europe it is necessary to note the attitude of the law toward them. In Germany, according to Professor Ad. Menzel in an article in *Schriften des Vereins für Socialpolitik*, Vol. LXI, entitled: "Die wirtschaftlichen Kartelle und die Rechtsordnung," the state shows less disposition to interfere with the operations of concentrated capital:

That trust-contracts under certain conditions greatly injure public interest and endanger the public welfare, does not stamp them as immoral contracts, because we cannot from this deduce a purpose to injure the individual. Here the question is of an objective wrong, not of a subjective immorality. The limitation of the individual liberty of the syndicated business men cannot even be brought into question, when the imposed limitations strike all the members alike, and have once been agreed upon by the corporation contract. At times it has been held valid that contracts, through which each one agrees not to pursue or not to establish a business in a certain territory, are not binding from the standpoint of unpermissible restriction of freedom. Even if this is admitted, one must not misapprehend that the trusts possess a content wholly different from the mentioned contract. From the principle of free competition even, an argument against the validity of trusts cannot be deduced. This principle says only that a business undertaking shall be open to any one, to whom no special legal obstacle stands in the way, irrespective of corporate connections and, as a rule, irrespective of concessions from the state. The formation of a trust stands nowise antagonistic to this principle.

¹ See *Consular Reports*, p. 528 *et pass.* Also, MACROSTY: "The Growth of Monopoly in British Industry," *Contemporary Review*, March 1899.

At all times business men outside of the trust are at liberty to enter and do business in the industry in question. That competition under such conditions becomes difficult, yes, even impossible, is an actual and not a legal obstacle (pp. 36, 37).

In Austria, according to the corporation law of April 7, 1870, any agreement of business men with the aim of raising the price of a commodity to the detriment of the public has no binding force. This law would in the first place not touch the producers of raw materials needed by other producers, and the operation of the law is such that circumventions of it are very easy and combinations flourish.

In the practice of the English court the principle holds that the trust is illegal only when it so completely monopolizes an industry that competition is wholly removed or the prices of goods are raised to an excessive height. In such a case the combination is antagonistic to the English conception of freedom of trade and is consequently judged as void. From this it follows that the decision, whether the combination has the force of legal contract or not, depends according to the English court upon the merits of each case. 'The growth of numerous and even oppressive combinations has by no means been prevented in England.'

But while the law in England and on the continent has left the development of the trusts to be shaped by economic conditions, it is guarding more and more closely the incorporation and supervision of corporations.

Every incorporated company [in Germany] which operates independently, or as a member of a syndicate, is, from the moment of its organization, under control of the law of corporations, a statute that reaches to every detail of corporate organization and management; compels the periodical publication of statements showing the exact condition of the company's affairs; makes its books and assets subject to official inspection at all times; and holds directors and officers rigidly responsible for every breach of trust.¹

A result of this attitude of the law is that trusts, especially in Germany and Austria, take the form of selling-pools, leaving the question of ownership aside. This will naturally check the iron bound strength of the trust that the unwitting hostility of American legislation has given it. The possibility always exists that the individual owners will disagree and the trust break down. Their unwillingness to give

¹ *Schriften des Vereins für Socialpolitik*, vol. lxi. pp. 37-42.

² *Consular Reports*, p. 467. From the reports of the Consul-General.

up their independent ownership for corporate may also result from this rigid inspection of corporations. Complaints have frequently been raised, as they have in this country, over the unnecessary secrecy with which these private combines are hedged about. Dr. Menzel, in his able article, page 45, recommends :

In consideration of the important interests that the public has in the continuation of these combinations, this secrecy seems unjustifiable. To spare the existing sensibility, the obligatory publication of all the conjunctions of the trusts may for the present be dispensed with. I propose, however, that all business men who enter upon or continue such combinations shall be compelled in the future to publish in certain official papers, on demand of state authorities, all important facts.

S. G. LINDHOLM.

THE UNIVERSITY OF CHICAGO.

RAILWAY STATISTICS.

THE one thing which the Interstate Commerce Commission has successfully accomplished is the collection and compilation of statistical information. To be sure this information is not available to the public for more than a year after the data is in the hands of the commission. The preliminary report for the year ending June 30, 1900, is just at hand and affords striking proof that the railways are getting their share of the prosperity which prevails.

The mileage of railways in the hands of receivers has dwindled to an insignificant amount. The construction of new mileage, 4051 miles, is greater than in any other year since 1893. The equipment shows a great increase both in locomotives and cars. There are 88,000 employees more than there were in 1899, and a quarter of a million more than in the low year 1894. The total number of railway employees for the first time exceeds one million, and their wages are \$577,264,841, nearly two fifths of the gross earnings of the railways, and 60 per cent. of their operating expenses is paid in wages to their own employees.

The capitalization shows an increase of \$1147 per mile, bringing the total up to \$11,491,034,960, or if miscellaneous obligations be included the railways show a capitalization above twelve billion dollars.

The most striking evidence that the railways are prospering is shown in their income and dividend accounts. The earnings are